Public Utility Commission’s Presentation on PURPA (1978)

PUC’s Response to Questions from the Informational Hearing held on April 25, 2023

What was the PUC’s reasoning for lowering the solar standard threshold in Oregon from 10MW to 3MW?

Here is additional information about the process used by the PUC and its reasoning supporting the current eligibility thresholds for standard contracts and standard avoided cost prices. Again, under federal law, small QF projects 100 kW or less must be provided these standard offerings, which are designed to help to smaller, less sophisticated QFs. The standard contacts are, in a sense, off-the-shelf contracts that small QFs can select with limited need for negotiations with the utilities. The standard prices trade some degree of precision for simplicity and are intended for QF developers that cannot negotiate a rate based on their specific project’s characteristics. (Small QFs often find these standard offerings advantageous, but they may choose to negotiate with the utility and are not required to use standard contracts and terms.)

Over the years, the PUC has increased and adjusted the eligibility threshold to help balance risks to customers and economically efficient development of QFs. In 1991, the PUC increased the eligibility threshold to 1MW. In 2005, the PUC allowed QFs with a nameplate capacity of up to 10 MW the ability to select standard contracts with 20-year terms, with the first 15 years with fixed prices.

In 2016, the PUC examined whether to reduce this eligibility threshold and contract terms for both wind and solar QFs at the request of all three utilities (Idaho Power, PacifiCorp, and PGE). The PUC used contested case (quasi-judicial) proceedings to investigate, and had the following entities participate as parties: Community Renewable Energy Association (CREA), the Renewable Energy Coalition (REC); Renewable Northwest (Renewable NW), Oregonians for Renewable Energy Progress, the Oregon Department of Energy (ODOE), Northwest Energy Coalition, Obsidian Renewables, LLC, Cypress Creek Renewables, LLC, the Sierra Club, the Northwest & Intermountain Power Producers Coalition, Idaho Power, PacifiCorp, PGE, Gardner Capital Solar Development, the City of Portland, and the PUC Staff.

The utilities sought relief to mitigate customer risk resulting from an unprecedented increase in QF activity. For example, PacifiCorp reported solar QF project requests had more than doubled in 2015 and 2016, and at that time the total of 925 MW of existing and proposed QF contracts would be enough to supply 56 percent of the company's average Oregon retail load and 90 percent of its minimum load. The utilities raised concerns about risk of overpayment and harm to ratepayers by entering into so many 20-year contracts at the less-precise standard avoided cost prices. The utilities also cited evidence that individual solar QF developers had found a way to present a single large project as multiple smaller projects to access the extra support available to smaller projects.

The PUC granted, in part, the utilities’ request. The PUC rejected requests to shorten the contract period from 20 to 3 years. It also rejected the call to reduce the eligibility threshold to the federal minimum of 100 kW. Instead, the PUC adopted targeted relief and lowered the threshold eligibility to 3 MW for solar, not wind projects,[1] but kept the eligibility threshold for standard contracts at 10 MW for both wind and solar. The PUC chose 3 MW as the eligibility

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[1] This decision was based on the marked increased in solar QF development, and an understanding that wind projects are not as easy to presents as several smaller projects.

threshold based on evidence that solar QF projects 3 MW in size were viable and being developed. For example, the PUC considered the sizes of QFs that successfully executed contracts and identified that these projects were 4 MW and larger. For more information, here are links to the PUC's order PUC Decision - PacifiCorp PUC Decision - Idaho Power PUC Decision - PGE

How do States set avoided cost prices?

As earlier stated, there is significant diversity in the methodologies used by states to develop avoided cost pricing. For a summary of PURPA implementation by state, the National Regulatory Research Institute maintains an on-line database: PURPA Tracker. In addition to discussing methodologies used to set avoided cost prices, the tracker also shows the variety of decisions made by states relating to contract length, eligibility thresholds, and the resulting prices themselves.

In Oregon, the PUC has adopted a methodology by which avoided cost prices are based on the costs of the lowest cost resource otherwise available to the utility. The PUC regularly updates avoided cost pricing through two processes. First, the PUC performs a comprehensive update of a utility's avoided costs following completion of the utility's integrated resource planning (IRP) process. This generally occurs at least every two years. Second, the PUC performs a limited update to capture key changes in the energy market every May.

It is important to note that the PUC uses estimates of utility energy costs *provided by the utilities* to set avoided cost prices. This means that the information used to set QF avoided cost prices is the same as the information that the utilities use to justify their own proposed resource actions in the IRP. While avoided cost prices are an approximation, using utility IRP data promotes accuracy and parity. This is due to the rigor of the analysis conducted in the IRP and because it requires utilities to treat the value of QF resources the same way that they treat their own desired resource actions. Again, the goal is to approximate a replacement cost for the QF—that is, the cost to the utility for the power it would otherwise generate itself or purchase. QFs enter long-term contracts to provide this power to the utilities, which means that it is important to consider the costs that the utility incurs to secure energy and capacity on a long-term basis—and not just short-term market rates—when comparing avoided cost rates.

The PUC completes avoided cost updates through an open and public process, where the PUC and other stakeholders have access to the data needed to vet to the utilities' avoided cost calculations and the resources that utilities procure outside of PURPA. Some information used to help inform avoided costs, however, is competitively sensitive. For that reason, the PUC may adopt protective orders to allow its Staff, customer groups, and other stakeholders to access this information, while shielding it from companies that negotiate or participate in utility procurement processes.

What does it mean that the "primary energy source" must be renewable?

A question was raised about the language contained in the definition for the type of QFs that are "small power producers." PURPA defines a small power producer as "generating facilities of 80 MW or less *whose primary energy source* is a renewable resource."

Rules adopted by the Federal Energy Regulatory Commission (FERC) clarify that, to qualify as a small power producer, the "primary energy source of the facility must be biomass, waste, renewable resources, geothermal resources, or any combination thereof, and 75 percent or more of the total energy input must be from these sources." The rules add that "any primary energy source which, on the basis of its energy content, is 50 percent or more biomass shall be considered biomass"

The rules recognize that renewable facilities may need to use non-renewable energy sources as part of their operations, and provides that:

> (2) Use of oil, natural gas and coal by a facility * * * is limited to the minimum amounts of fuel required for ignition, startup, testing, flame stabilization, and control uses, and the minimum amounts of fuel required to alleviate or prevent unanticipated equipment outages, and emergencies, directly affecting the public health, safety, or welfare, which would result from electric power outages. Such fuel use may not, in the aggregate, exceed 25 percent of the total energy input of the facility during the 12-month period beginning with the date the facility first produces electric energy and any calendar year subsequent to the year in which the facility first produces electric energy.

See 18 CFR Part 292

What are the potential rate impacts of HB 3055?

It is difficult to quantify potential rate impacts caused by raising the eligibility threshold from 3MW to 10MW as proposed in HB 3055 for two primary reasons. First, we do not know how many additional solar QF projects will be developed and select avoided cost pricing if the eligibility threshold is raised. More QF projects will be eligible for standard cost prices, but the number and size of solar QFs coming under contract due to HB 3055 is hard to predict.

Second, rate impact comparisons are complicated because different processes are used to establish the costs that ratepayers bear for QF power and other utility-procured resources. When a utility purchases power from a QF, the cost set forth in the contract is passed directly through to customers because the purchase was mandated by federal and state law. In contrast, when a utility procures power from resources outside of PURPA, it generally conducts a competitive process to identify the most cost-effective resources. These include both utility built and owned resources, as well as power purchase agreements (PPAs) with other entities. While PPA amounts are also passed through to ratepayers like QF contacts, utility-owned investments go through a prudence review in a rate investigation to determine what costs should be eligible for recovery. A utility is allowed the opportunity to earn a reasonable profit on prudently incurred investments. The PUC may disallow certain amounts found imprudent but may also allow recovery of cost overruns if they were due to no fault of the utility.

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Who bears cost of interconnection and transmission?

QFs are required to bear the cost to interconnect their project to the utility’s system and the utility is responsible for the delivery of that power to its retail customers. Interconnection costs borne by the QF may include the cost to build transmission lines if those are required to deliver the QF power to utility customers. Any other transmission related costs will be borne by the customer of the utility.

Under PURPA, avoided cost prices include the avoided interconnection and transmission costs. In other words, QFs are compensated for the interconnection and transmission costs that the utility would incur if it received that power from another resource. Because avoided costs use utility IRP data, the assumptions for interconnection and transmission costs are the same as those that the utility uses when justifying its own proposed resource actions.

One exception is the cost to deliver “off-system” QF energy to a utility’s system. PURPA allows QFs to be developed in one part of the state and ship their energy to a utility in another part of the state. In this circumstance, the QF is responsible for the cost to deliver that power to the purchasing utility’s system.

Can the PUC limit access to standard rates?

In the current phase of the UM 2000 Investigation, the PUC is exploring the concept of capping access to standard rates based on the total amount of projects that receive the standard rate. Projects under 100 kW will have access to a standard rate regardless of the volume of projects that have already accessed a standard rate, therefore, the investigation in UM 2000 is focused on whether access to the new solar+storage rate could be capped at 50 MW of total projects. The purpose of the cap is to mitigate risks of overpayment when establishing a new rate through an expedited process.

The current size threshold for standard rates is designed to target extra support to small-scale project developers that will have difficulty negotiating a rate with the utility and discourage sophisticated QF development companies from taking advantage of this extra support. A cap on the total volume of projects accessing standard rates would help mitigate some risks of overcompensation, as illustrated by the issues in UM 2000, but would not fully accomplish the goals of targeting extra support to small, unsophisticated QFs.